Original article in German: https://www.netzwoche.ch/news/2020-07-12/covid-19-wird-die-digitalisierung-im-banking-beschleunigen

"COVID-19 will accelerate digitalization in banking"

Sun 12.07.2020 - 00:00
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English translation by Avaloq

Customer needs are changing, and data storage is also growing in importance for banks. Avaloq, a leading global provider of digital banking solutions, is launching three new platforms this year to reflect these changes. Martin Greweldinger, Group Chief Product Officer at Avaloq, explains what the future of banking will be like.

Martin Greweldinger, Group Chief Product Officer at Avaloq

To what extent do you see yourself as a game changer in the financial industry?

Martin Greweldinger: (Laughs) Developing game-changing products or software is always a team effort. So, it's not me that is the game changer here – if you want to change the game, you need a strong team and a strong employer behind you. We have both here at Avaloq.

To what extent do you see Avaloq as a game changer in the financial industry?

Avaloq's vision and the reason Avaloq was founded over 30 years ago make us a game changer. Banks should be able to concentrate on their core business in banking and wealth management: adding value for the customer. All other processes, such as the back office, should be automated as far as possible to maximize efficiency. That's where we come in. There are many good digital market providers in Switzerland and also many good providers in the core

banking sector. But there are very few that can fully automate the entire process chain from the end customer to the adviser all the way to core settlement.

The banking industry is changing. Sales and client enablement are increasingly running via digital channels. COVID-19 has been a catalyst for digitalization in banking and will accelerate this rapid development even further. As a result, digital channels with real-time straight-through processing (STP) are becoming increasingly important for customer engagement and management, and a high degree of automation and clean data storage are essential. These enable banks to implement processes in real time and generate knowledge from them. This knowledge, also known as artificial intelligence, can be used to advise bank clients, but it can also be used for customer relationship management or customer engagement. A platform is needed that automates and orchestrates all processes. And that makes Avaloq a game changer. Intelligent automation supports banks not only on the operations side, but also in advisory.

You referred to COVID-19 as a catalyst for digitalization. How will the coronavirus be a game changer in the financial industry?

COVID-19 is a catalyst for the digitalization of banking in two main areas, the front end and core banking. The situation as a whole and the restrictions on going out meant that bank clients didn't want to go to the bank, and many bank employees were working from home, and in some cases still are. As a result, the ability of bank employees to manage their clients from home without violating Swiss banking secrecy must be guaranteed. One example is that client-identifying data must be separated from non-client-identifying data.

Moreover, the bank and its clients need ways to communicate. When it comes to engagement, it is important for bank clients to be able to contact their advisers through their preferred digital channels and not through some separate, new app. Bank clients want to communicate via platforms that they also use privately in their everyday lives and on which they feel comfortable, such as WhatsApp.

COVID-19 will drive forward digitalization in these areas, which will ultimately also lead to more homogeneity in the banking industry. At the same time, the use of cloud-based services is increasing. There is currently a great deal of heterogeneity in the banking environment – each bank has a different infrastructure. Avaloq is designed for collaboration between banks. That means we develop the same code for many banks with the relevant requirements of the individual banks. We do the same thing with the various systems. This is where the move to the cloud helps us, as it allows us to bring about a degree of standardization of systems that has not been possible before.

What are the current trends in your business as a provider of banking software?

I see intelligent automation as a key trend. The watchword here is again STP, i.e. the automation of processes. For example, payments can be processed without having to be checked by a person. This can be seen in the field of payments, for example with the online banks. However, intelligent automation supports banks not only on the operations side, but also in advisory. It helps enormously if advisers can see all relevant information directly when exchanging information with clients. That is one of the reasons why we have developed our new Avaloq Engage platform.

I'm also seeing a trend towards cooperation. In the past, every bank wanted to do everything itself and on its own. It is important that cooperation takes place via a standardized, open platform. The watchword is open banking; and that means cooperating with one another and agreeing on interfaces. It's about developing truly integrated solutions and moving away from the old concept of "best of breed".

The third major point is the industrialization of banking. This is intended to eliminate redundancies and standardize processes by standardizing the infrastructure through the cloud, as I mentioned.

Another trend I'm seeing on the client side is the "invisible bank". Over the next five to ten years, banking will become a service that is integrated transparently into many process chains. Another development emerging from this trend is what we call the "democratization of wealth management". This means that banking products and services that were previously reserved for wealthy clients are no longer the exclusive preserve of larger clients but can also benefit smaller clients, as the products can now be offered in a scaled manner.

You mentioned Avaloq Engage. What's that?

Avaloq Engage, Wealth and Insight are our three new platforms that have come about as a result of both technological change and the changing needs of clients and their demands on their bank. Engage is our omnichannel engagement platform, developed as a medium for all customer support and interaction across all process areas. Clients can contact their advisers via WhatsApp, Line or WeChat. But the solution is not just a communication tool. All the banking functions on the platform, whether advice, portfolio, trading, news or sales channels, are integrated into Avaloq Engage, so the bank's relationship managers have a smart digital assistant by their side. This smart assistant reads the chat and is able to understand the customers' needs thanks to the integrated AI, and it can suggest products or information that the relationship manager can offer the customer straight away.

Avaloq Wealth is our response to the trend towards hyper-personalization in the advisory environment. Over the next three to five years, there will be a huge generational shift in global wealth management. Many large portfolios are being transferred from the baby boomers to the younger generation, whose needs are different from the older generation's. They want to be able to manage their affairs in real time, they want to be able to make investments with an individualized risk profile and they demand a personalized ecosystem tailored to their needs. Our Wealth platform allows us to meet these individual needs.

Avaloq Insight is a platform for data preparation – what is known as a "federated learning system". This is a machine learning algorithm that processes data across all participating clients. We have a huge amount of data that is used to train the algorithm, and the more data that is available, the better support the algorithm offers.

What other products or services are you developing?

We see huge growth potential over the next few years in open banking and the resulting ecosystems in wealth management. We are already well positioned in this area with the Avaloq.one ecosystem, and we are going to keep expanding that. There will also be some very exciting use cases in crypto and DLT (distributed ledger technology), in crypto asset lifecycles, for example. We are firm believers in digital investments and already offer a crypto-as-a-service module.

What digitalization challenges do financial institutions and wealth managers face if they want to succeed in the medium and long term?

The greatest challenge for banks is data storage – data management, verification and consistency. There are still too many data silos, which the banks will have to abandon, especially in light of ongoing digitalization; nothing works without perfectly prepared data.

How do you see the banking industry developing in the medium term?

In wealth management, the cost-to-income ratio will be a major issue. Market players with a clear strategy and focus will be more successful than banks that offer a little bit of everything. What will also happen is greater cooperation in banking, especially between banks and non-banks such as fintechs.

About Martin Greweldinger
Martin Greweldinger has many years of experience in the digital banking sector. Before joining Avaloq in January 2019, he was a Principal and core member of the Financial Institutions and Technology & Digital practice areas at The Boston Consulting Group. Prior to that, he worked for a number of top-tier financial institutions for more than 15 years, including Commerzbank, Credit Suisse and Dresdner Bank. As Group Chief Product Officer at Avaloq, he is responsible for developing new innovative software solutions for banks and wealth managers.